

~~SECRET~~

SECURITY INFORMATION

COUNCIL OF ECONOMIC MUTUAL ASSISTANCE

Enclosure  
CIA/RR IP-300  
16 July 1952

~~SECRET~~

~~SECRET~~

SECURITY INFORMATION

COUNCIL OF ECONOMIC MUTUAL ASSISTANCE

1. Formation and Purpose of the Council of Economic Mutual Assistance.

In January 1949 the Soviet Union announced the formation of the Council of Economic Mutual Assistance (CEMA). The original members were the USSR, Poland, Czechoslovakia, Hungary, Rumania, and Bulgaria. Other European countries were invited to join, providing they subscribed to the principles of the organization and wished to participate in broad economic cooperation. Two other states, Albania and Eastern Germany, were admitted later to the organization.

CEMA was inaugurated initially as a response and counterattraction to the US-sponsored Marshall Plan. Recovery in Western Europe would exert a powerful attraction on the capital deficit and nationally oriented countries of Eastern Europe. Soviet hegemony in the region was further challenged by Yugoslavia, which early in 1949 still retained its economic ties with the Soviet Bloc.

The formation of CEMA had both a psychological and an economic purpose. Psychologically, CEMA provided the Soviet Union with a potent propaganda weapon. It was heralded as an association of free countries uniting for mutual economic assistance in order to improve the living standards of their peoples, while at the same time the Marshall Plan was depicted as the blackest imperialist plot to enslave Europe. Economically, the creation of CEMA marked an important stage in the integration of Eastern Europe in the Soviet Bloc. Throughout 1948 a broad scheme was evolving for coordinating the economies of the European Satellites. These countries concluded among themselves a series of bilateral agreements for the coordination of planned investments, production, trade and technical exchanges. In the same year the problem of coordinated industrial development actively engaged the attention of numerous economists in the commissions of the Polish-Czech and Polish-Hungarian Economic Councils.

The centralized reorientation of the economic plans for the European Satellites is in line with the ultimate Soviet objective of welding their economies into an integral part of the Soviet economy. This would enable the Soviet Union to achieve a more intensive and rational utilization of the Soviet Bloc's resources in support of its economic mobilization. While the previous Soviet emphasis on deliveries of raw materials and equipment from the European Satellites will continue to be important, the new aspect of the integration program is the development of a strong industrial complex in Central Europe.

CEMA also has been utilized to deal with special economic problems affecting Soviet interests in Eastern Europe. Its activities have included the organization of the economic blockade against Yugoslavia and the bolstering of the weak economies of Albania and Eastern Germany. CEMA has been instrumental in directing the external economic relations of the European Satellites and has dealt with the adjustment of their economies to the decreasing levels of East-West trade.

S-E-C-R-E-T

2. Mode of Operation.

The Council, according to the initial announcement from Moscow, was to meet periodically in the capitals of the participating countries. There has been no official information of the Council's activities, and it is difficult to determine when reported meetings of Eastern European economic officials are in fact meetings of CEMA. Two possibilities concerning the organization of the Council are that: (a) there is no single body regularly functioning as the Council and that any Soviet Bloc economic meeting can be considered a meeting of CEMA or, (b) there is a regularly functioning Council organ which also has sub-commissions meeting periodically in its name.

During 1949, a year of general study and preparatory planning, CEMA meetings were concerned with such problems as balanced economic development, reorganization of Eastern European industry and the utilization of manpower. In the following year, 1950, CEMA more clearly became one of the Soviet "transmission belts" for directives and exhortations to the Satellite economic administrations. These directives concerned such matters as regional development programs or the control of resources. CEMA meetings also were utilized by the Soviet Union to indicate to the member countries the expected priority of economic effort and to focus attention on the national antipathies of the participants when they appeared to impede the regional program.

A Secretariat for CEMA was set up in Moscow under a Soviet Secretary General, and permanent representatives were appointed by each of the participating countries. The Eastern European staff is small, three or four officials from each Satellite country, and includes men who have been prominent in shaping their countries' economic policies. It is believed that the Soviet representatives on the Secretariat are key members of the Soviet State Planning Committee.

The primary functions of the Secretariat are to provide the statistical basis for regional planning and to participate in the determination of long term planning objectives. It receives detailed monthly reports on the economies of the member countries and is empowered to call for any additional documentary material which is deemed pertinent. The Secretariat works, on an advisory basis, with the Soviet agencies concerned with Eastern European economic affairs. Actual responsibility for determining the directives for the regional programs rests with the Soviet State Planning Committee. The detailed planning activity within the framework of the broad directives is carried on not by the Secretariat but by the European Satellite planning commissions and by regional meetings of Satellite officials.

The Secretariat, in the founding protocol of CEMA, was given broad powers over the economies of the member states. It is authorized to make binding

S-E-C-R-E-T

S-E-C-R-E-T

decisions on any economic matter, subject only to later review by the Council. The directive powers are exercised not by the CEMA Secretariat but by Soviet agencies acting in its name. In this manner direct instructions from the Soviet State Planning Committee or the Soviet Ministry of Foreign Trade are issued to the European Satellite economic administrations. Another channel for the transmission of Soviet instructions is the host of Soviet observers and technical missions visiting the Eastern European countries. Most Soviet economic missions are de facto agents of CEMA and are fully endowed with the powers of the CEMA Secretariat. It is believed that their recommendations are adopted by the respective ministerial councils. Similarly, the recommendations of Soviet Bloc conferences probably are binding on the European Satellite governments.

3. Effectiveness.

The CEMA structure is part of a wider pattern of Soviet organization for the coordination of the economies of the European Satellites. Soviet policy in Eastern Europe is carried out with the maximum emphasis on the form of national sovereignty while minimizing the substance of sovereignty. The resulting organization follows Stalin's dictum for being "national in form and soviet in content." The balance between a strongly traditional form and an alien content is a delicate one, but the underlying sanction for Soviet influence in the economic affairs of the region is in the area of political rather than economic organization.

CEMA has provided the Soviet Union with an instrument for directing the total economic life of the European Satellites through the active participation of the governments of these countries. However, this Soviet control is being extended only gradually throughout the lower level of the Satellite economies. At the same time, the Soviet Union has continued to exercise extraterritorial rights over important economic sectors through their "joint" holdings. Production and trade for the joint Soviet-Satellite companies appear not to enter into the CEMA directed national plane or trade agreements but to be governed directly by Soviet planning.

By the middle of 1950 the reorientation of the national economic plans of the European Satellites according to a regional plan was completed. The emphasis is on regional specialization in the development of a strong industrial complex which will be relatively self-sufficient in primary raw materials and light industry. In line with Soviet practice, an inter-regional specialization is superimposed on the regional plan in order to avoid the development of an independent economic unit.

With the completion of a regional plan the functions of the CEMA organs -- the Council, Secretariat, and Soviet officials acting in the name of CEMA -- shifted from plan formulation to plan execution. European Satellite production schedules and trade are under surveillance in Moscow. Several reports have

S-E-C-R-E-T

pointed toward the setting up in Moscow of a system of accounts for the USSR and each of the Satellites. It is possible that these accounts are used only for credits made under the aegis of CEMA, since all other evidence points to a continuation of the bilateral system of trade.

Economic assistance under CEMA is considered primarily in terms of trade exchanges which support production and investment programs. However, production programs are predicated, not on the "payments effect" of a bilateral balancing of trade, but rather on the extension of trading credits. These credits are established annually for the individual country accounts at the Gosbank and represent the total programmed import surplus for each of the Eastern European countries vis-a-vis the bloc as a whole. This method of providing Soviet assistance maximizes self-help and mutual assistance among the European Satellites and permits a tight control over the regional allocation of resources.

It appears that the Soviet Union is providing substantial quantities of raw materials and equipment through CEMA for the industrialization of the Central European Satellites and for agricultural collectivization in the Balkan Satellites. From the Soviet viewpoint the industrialization of the Central European Satellites, given secure political control, has many advantages. It appeals to the economic nationalism of the countries involved, enlarges the industrial working class, and provides the USSR with a greater economic potential for war.

- 4 -

S-E-C-R-E-T